

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON HIBISCUS COAST MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Hibiscus Coast Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hibiscus Coast Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the

requirements of the MFMA and DORA.

### **Emphasis of matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

8. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2010-11 financial year in the financial statements of the Hibiscus Coast Municipality at, and for the year ended, 30 June 2010.

### **Irregular expenditure**

9. As disclosed in note 40.3 to the financial statements, irregular expenditure to the amount of R1,972 million was incurred as proper tender processes had not been followed.

### **Material losses**

10. As disclosed in note 43 to the financial statements, material losses amounting to R2,320 million were incurred as a result of electricity distribution losses.

### **Additional matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Material inconsistencies in other information included in the annual report**

11. I have not obtained the other information included in the annual report for my review and as such have not been able to identify any material inconsistencies with the financial statements.

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

#### **Usefulness of information**

14. The following criteria are relevant to the findings below:

- Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound
- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents

15. The following audit findings relates to the above criterion:

### **Planned and reported indicators are not well defined**

16. For the selected objectives, 31% of the planned and reported indicators were not clear, as clear data definitions were not available to allow for data to be collected consistently.

### **Reported objectives, indicators and targets are not consistent and complete when compared with the planned objectives, indicators and targets.**

17. Reported performance against predetermined objectives, indicators and targets is not consistent with the approved integrated development plan.

### **Changes to planned objectives, indicators and targets are not approved**

18. Additional objectives, indicators and targets were reported on as opposed to those in the approved integrated development plan. These additional objectives, indicators and targets were not approved.

## **Compliance with laws and regulations**

### **Annual financial statements**

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1)(a) of the MFMA, misstatements of capital assets, current assets, liabilities and disclosure items identified during the audit were corrected subsequently by management resulting in the financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

20. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
21. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) & (c).

### **Expenditure management**

22. The accounting officer did not take reasonable steps to detect and prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

## **INTERNAL CONTROL**

23. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies regarding the findings on the annual performance report and the findings on compliance with laws and regulations applicable to the municipality.

## **Leadership**

24. The managers of the respective departments involved in the compilation of the predetermined objectives do not have a full and clear understanding of the performance reporting framework and guidelines.
25. The accounting officer has not developed adequate process to ensure that annual performance report is consistent with approved plan. Furthermore changes to the objectives, indicators and targets are approved.

## **Financial management**

26. The accounting officer has not developed documented procedures to ensure that financial information is documented correctly and accurately.
27. The accounting officer did not develop proper processes to ensure proper management of contracts from their inception to execution, recording (including payments) and filing of the documents.
28. The chief financial officer did not perform adequate reviews of the financial statements to ensure that they were free from material misstatements and complied in all material respects with SA Standards of GRAP.
29. The accounting officer did not adequately exercise oversight responsibility over compliance with MFMA and the supply chain management processes.

Pietermaritzburg  
30 November 2011



**A U D I T O R - G E N E R A L**  
**S O U T H   A F R I C A**

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